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Relative Incomes of Blacks in Minnesota

Recent news reports cite findings from the 2014 American Community Survey (ACS) that show blacks are worse off in Minnesota than in Mississippi. The Minneapolis Star Tribune reported:

From 2013 to 2014, the median income for black households in the state fell 14 percent. In constant dollars, that was a decline from about \$31,500 to \$27,000 – or \$4,500 in a single year. ... The median black household in Minnesota is now worse off than its counterpart in Mississippi. Among the 50 states, along with Puerto Rico and Washington, D.C., Minnesota ranked 45th in median black household income. Mississippi ranked 44th.¹

The problem with these claims, and conclusions drawn from them, is that the statistics reference one-year changes that do not tell the full story

about underlying shifts in the distribution of income among blacks in Minnesota. Elsewhere, we have documented that there are year-to-year fluctuations in various measures of income for blacks in Minnesota and in Mississippi.² We argue in our policy brief that over the past 13 years there have been both increases and decreases in black incomes in Minnesota, justifying an examination of longer-term trends rather than year-to-year fluctuations.

Are Blacks Worse Off?

We looked at two different measures of economic well-being of blacks: wage and salary incomes and household incomes using the Current Population Survey (CPS). We found that wage and salary incomes and the household incomes for blacks in the 2014 survey were higher than the wage and salary incomes

and the household incomes in the 2013 survey. The median household income for blacks rose from \$29,780 to \$30,020 from 2013 to 2014. This increase is not statistically significant. Mean wage and salary income for blacks rose from \$28,980.91 to \$30,198.60; median wage and salary income rose from \$21,000 to \$24,000. Mean household income rose from \$41,142.64 to \$44,639.72. None of these changes are statistically significant.

We conclude that the claim that black income declined in Minnesota from 2013 to 2014 is not robust across alternative data sets or alternative measures of income.

We also examined the past 13 years of annual ACS Public Use Microdata Sample (PUMS) data and found that in six of the past 13 years there were declines

¹Reinan, John, and MaryJo Webster. "Black household income plunges in one year in Minnesota." Star Tribune (Minneapolis, Minn.), Sept. 17, 2015.

²Myers, Samuel, and Man Xu, "Are Blacks Better Off in Mississippi than in Minnesota?" Research brief revised and updated, Roy Wilkins Center, University of Minnesota, Nov. 10, 2015. <http://www.hhh.umn.edu/news/roy-wilkins-center-research-brief-disputes-reports-income-disparity-minnesota>.

in median black incomes in Minnesota. In seven of the past 13 years there were increases. None of these year-to-year changes is statistically significant. This suggests to us that there are wide fluctuations from year to year in black median incomes and thus one should be very careful in drawing policy implications from these abrupt changes.

Are Blacks Worse off in Minnesota than in Mississippi?

Using the five-year, 5 percent sample of the population from the American Community Survey-PUMS (2009-2013), we computed the mean and median wage and salary incomes and mean and median household incomes for blacks and whites in Minnesota vs. Mississippi. On each of these measures the black income in Minnesota exceeds the black income in Mississippi. These differences are all statistically significant. White income in Mississippi, however, is uniformly lower than white income in Minnesota. The result is that on one measure, the median household income, the black-white ratio is higher in Mississippi than in Minnesota (.57 vs. .51). On other measures the black-to-white ratio is higher in Minnesota than in Mississippi. The ratios of black-to-white mean and median wage and salary incomes are higher in

Minnesota than in Mississippi (.65 vs. .63) and the ratio of black-to-white mean household income is higher in Minnesota than in Mississippi (.62 vs. .57).

We conclude that it is premature to claim that blacks are worse off in Minnesota than in Mississippi.

recession and recession vs. the post-recession. Unmistakably, the ratio of black-to-white household incomes declined between the two time periods. Whether measured by means or medians, the declines are statistically significant. The black-white ratio of mean household incomes in Minnesota



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Are Blacks Worse off Relative to Whites in Minnesota?

At the Summit on Black Income, hosted by Congressman Keith Ellison on Nov. 10, 2015, at the Franklin Middle School, we reported findings comparing the incomes of blacks and whites in Minnesota in 2005-2009 vs. 2009-2013 using the ACS-PUMS. This comparison is useful because it shows two distinct time periods: the pre-

dropped from .54 in 2005-2009 to .50 in 2009-2013. Or put differently, for every dollar that a white household earned in total income, black households received 54 cents in 2005-2009; this dropped to 50 cents in 2009-2013. These drops are statistically significant and are largely attributable to white household incomes recovering after the recession but black household incomes remaining stagnant.

We also computed the black-white ratios of wage and salary incomes for the two periods. This ratio dropped from .67 to .65, barely statistically significant on conventional grounds. The black-white ratio among native-born residents dipped insignificantly from .66 to .65, while the black-white ratio among foreign-born residents dropped from .67 to .65. Thus, the relative size and statistical significance of the drop in household incomes is of a greater magnitude than the drop in wage and salary incomes. To be sure, the comparison of wage and salary incomes is for people who worked, and persistent unemployment differentials may help explain the difference.

Explaining the Deterioration in Relative Household Incomes

There is no dispute that the ratio of black-to-white household incomes declined from 2005-2009 to 2009-2013. But little of the gap can be explained by changes in black-white wage and salary incomes. If labor market processes are behind these household gaps, then the problem of widening income disparities is more likely to be rooted in differential hiring than in differential wages and salaries. This is not to discount the fact that blacks earn less than whites in Minnesota. Rather it is to say that the cause of the widening gap in household incomes might

rest in the entry points of labor markets rather than in the wage setting.

Another important component of household incomes is transfer payments. One unintended impact of welfare reforms in Minnesota and elsewhere is the drop in the portion of total income coming from public assistance payments. Coming out of the recession, many black households face a double whammy: higher unemployment and lower transfers.

Not to be discounted is the role of self-employment in explaining the widening gap in black and white household incomes. There has been a non-trivial growth in the share of black households with foreign-born heads. Foreign-born blacks disproportionately rely on self-employment income. But even native-born blacks have turned to self-employment as a cushion from unemployment. In the absence of vigorous implementation of public agency goals for minority business enterprises and in the presence of discrimination against these business enterprises in the private sector, self-employment incomes lag and contribute to lower household incomes. Coupled with documented lending discrimination, market barriers persist to make it difficult for these emerging small businesses to succeed.

Undoubtedly, low wages for black immigrant workers and heavy concentrations of black workers in low-wage industries contribute to the low ratio of black-to-white incomes in Minnesota. But the widening gap in household incomes belies the smaller disparity in wage and salary incomes pointing to factors other than labor market disparities as the culprit. In short, the real and persistent black-white disparity in household incomes in Minnesota is widening and the policy response requires examination of each of the different components of the decline in black economic well-being.

Policy Recommendations

It is tempting to conclude a discussion about black-white differences in household incomes by lamenting the dire circumstances facing African Americans in local labor markets. Conventional human capital explanations for these unequal outcomes focus on deficits that blacks themselves face in educational attainment and job readiness. But such policy perspectives ignore some important positive trends and potential remedies that go beyond focusing on human capital deficiencies. What some authors call the behavioral deficit approach also ignores recent evidence of structural impediments that African Americans face in Minnesota.

Positive Trends and Policy Options

Underappreciated in policy discussions about lagging black incomes is the significant growth in black business ownership in Minnesota. Calculations from the ACS-PUMS 5 percent samples for 2005-2009 and 2009-2013 reveal that black self-employment rates grew from 2.88 percent in 2005-2009 to 4.25 percent in 2009-2013. Even more dramatic is the growth in self-employment among non-native-born African Americans. The rate for this group increased from 2.7 percent to 5.59 percent over the time span. The self-employment rates of native-born blacks rose from 2.97 percent to 3.56 percent. Although the mean self-employed earnings of non-native-born blacks rose from \$16,140 to \$29,520, the self-employment earnings of native-born African Americans dropped from \$29,497 to \$15,256. Thus, there is a growing supply of black-owned businesses, but these businesses are not participating uniformly in the opportunities available in the Minnesota marketplace.

Recent reports from the Minnesota Department of Transportation provide a clue regarding impediments that black businesses face in contracting with the state. Despite the significant growth in the number of black businesses, federal disadvantaged

business enterprise (DBE) goals have not been attained, nor have black businesses been proportional recipients of contracts or subcontracts awarded. Similar findings show that black businesses are severely underrepresented among participants in the state's Targeted Group Business Program. This suggests a need for more vigorous implementation of these programs and dedicated efforts to expand participation among qualified black business owners. The benefit of focusing attention on expansion of state contracting opportunities to black firms is that these firms, like other minority small businesses, are known to disproportionately hire minority workers. In short, through bidding on government contracts, black-owned businesses contribute to the solution of the problem of racial income disparities.

Structural Impediments and Policy Options

The dramatic growth in minority-owned businesses in Minnesota might have been even larger had there not been a major housing crisis in the second half of the last decade. Home equity is a major funding source for the formation of small businesses. Although the overall housing market is slowly recovering, recent reports point to wide racial disparities in loan

denial rates even among the top lenders in the area. These lending disparities affect minority business growth and thereby curb the growth in minority employment. The federal enforcement efforts regarding the Equal Credit Opportunity Act have been lackluster at best in Minnesota. There is a need for strengthened and more energetic identification of lenders whose racial disparities in loan denial rates cannot be explained by legally and economically relevant factors. Increasing access to both home loans and to business loans will help boost the already impressive growth in African American businesses in the local area and afford the opportunity for the creation of many new jobs for minority workers.

Together, these policy options of vigorous enforcement of the anti-discrimination laws and aggressive outreach to the emerging small businesses in black communities will stimulate growth and expansion of black firms. This will help generate new jobs and help to reduce the overall racial disparity in household incomes. **T**